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20
 21 Counsel for Defendants Global Machinery Company,
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23
 24 **IN THE UNITED STATES DISTRICT COURT**
 25 **FOR THE SOUTHERN DISTRICT OF CALIFORNIA**

27 JENS ERIK SORENSEN, as Trustee of	)	Case No. 08 CV 0233
28 SORENSEN RESEARCH AND)	
29 DEVELOPMENT TRUST,	)	REPLY IN SUPPORT OF
30	)	MOTION FOR STAY PENDING
31	)	PATENT REEXAMINATION
32 Plaintiff,)	
33)	
34 v.	)	Date: April 25, 2008
35	)	Time: 11:00 a.m.
36 GLOBAL MACHINERY COMPANY,	)	Courtroom 15, 5 th Floor
37 an Australian company; GMCA PTY.	)	Hon. Barry Ted Moskowitz
38 LTD., an Australian company;)	
39 TRAPONE CORPORATION PTY.	)	No Oral Argument Unless
40 LTD., an Australian company; and DOES	)	Requested by the Court
41 1-100,)	
42)	
43)	
44 Defendants.)	
45		

1 Defendants Global Machinery Company, GMCA Pty. Ltd., and Trapone Corporation Pty.
2 Ltd. (“Defendants”) filed a Notice of Motion and Motion for Stay Pending Patent Reexamination
3 (the “Motion”) on March 18, 2008, thereby moving the Court to stay all proceedings in the
4 present action pending the reexamination of U.S. Patent Number 4,935,184 (the “‘184 patent”)
5 by the United States Patent and Trademark Office (“USPTO”). Plaintiff Jens Erik Sorensen, as
6 Trustee of Sorensen Research and Development Trust (“Plaintiff”) filed an Opposition to
7 Defendants’ Motion on April 10, 2008. In reply to Plaintiff’s Opposition, and in further support
8 of Defendants’ Motion, Defendants state as follows:

9 **BACKGROUND**

10 As previously explained in the Motion, the present action is based on the alleged
11 infringement of the ‘184 patent, which is currently the subject of two reexamination proceedings
12 before the USPTO. Many issues in this case may be clarified, simplified, and determined by the
13 pending reexamination proceedings. The pending reexamination proceedings, as administrative
14 proceedings of the USPTO, allow the USPTO the opportunity to resolve validity issues
15 concerning the ‘184 patent through established administrative procedures, thus sparing this Court
16 the burden of determining difficult patent issues. The outcome of the currently pending
17 reexamination proceedings bears directly on the validity, enforceability, and scope of the ‘184
18 patent. In fact, should the USPTO determine that the patent is invalid, the reexamination
19 proceedings will eliminate the need for this litigation.

20 **ARGUMENT AND AUTHORITIES**

21 As set forth in the Motion, the interests of judicial economy weigh in favor of staying the
22 present action pending resolution of the pending reexamination proceedings. Defendants are not
23 trying to “derail this litigation” and do not argue “*per se* entitlement to a stay based upon the
24 *Black & Decker* stay,” as alleged by Plaintiff, but rather have demonstrated that a stay is

1 appropriate and justified in this case, regardless of what happens in any other cases. Defendants
2 did not initiate the currently pending reexaminations; those proceedings were already underway
3 when Plaintiff initiated the present action against Defendants. It is true that granting a stay in the
4 present action would promote consistency among the related cases; however, disregarding all
5 other cases and considering the merits of a stay in this case alone, a stay of the present action
6 pending reexamination of the '184 patent is appropriate and warranted.

7 Plaintiff's Opposition argues that the reexamination proceedings may last 5 years, but
8 cannot support this assertion with anything but flawed methodology and unfounded assumptions.
9 Plaintiff further argues that a stay will prejudice Plaintiff, but fails to demonstrate the likelihood
10 of such prejudice or whether the risk of such prejudice outweighs the other considerations
11 involved in determining whether a stay is appropriate. As set forth below, Plaintiff's arguments
12 against a stay in the present action are not well taken, and a stay is appropriate and warranted.

13 **Plaintiff's Calculation of the Possible Time for the Reexaminations is Fatally Flawed**

14 Plaintiff's primary argument in opposition to the proposed stay is that a stay pending the
15 reexaminations would be inappropriate because the reexaminations are likely to extend five years
16 or more. However, Plaintiff's assertion that the reexaminations will take five years is not based
17 on official USPTO statistics, but rather on a flawed methodology that makes unfounded
18 assumptions and ignores crucial factors.

19 The USPTO recently released statistics through December 31, 2007. In a document titled
20 "Ex Parte Reexamination Filing Data – December 31, 2007," attached hereto as Exhibit 1, the
21 USPTO reported that the average overall reexamination pendency, from filing date to certificate
22 issue date, is 24.0 months and the median pendency is 18.6 months. The document does not
23 state how these pendencies were calculated. Other items in the report specify that those items
24 include data from 1981 to present; however, the pendency calculation does not. Likewise, the

1 document does not provide raw data that may be used to confirm the USPTO's calculation. All
2 that can be definitively established is that the USPTO's position is that reexaminations have an
3 average pendency of 24.0 months and a median pendency of 18.6 months. This is consistent
4 with the USPTO's previous assertion in its June 2006 statistical report that the average pendency
5 was 22.8 months and the median pendency was 17.6 months, as recognized by this Court in its
6 Judicial Notice regarding the stay in *Sorensen v. Black & Decker Corporation, et al.*, Case No.
7 06cv1572, Docket #243.

8 Plaintiff alleges that the USPTO's calculations are obsolete, and that reexaminations
9 currently may be expected to last five years. However, Plaintiff makes certain unfounded
10 assumptions and ignores crucial factors in calculating the five-year duration. First, Plaintiff's
11 methodology is flawed: Plaintiff does not look at the actual pendency for recent reexaminations,
12 but rather assumes that the pendency of a newly filed reexamination depends on the size of the
13 USPTO's backlog. Plaintiff presumes to determine the size of that backlog by comparing
14 reexamination filings versus issued certificates from 1989 to the end of 2007. Plaintiff then
15 divides the total supposed backlog by the highest number of reexamination certificates issued in
16 one year (367 in 2007) and the average number of reexamination certificates issued during the
17 past five years (250 from 2003 to 2007) to determine that the backlog will not be cleared for 4.5
18 to 6.6 years. The biggest problem with this methodology is that Plaintiff assumes that the
19 USPTO takes reexamination applications in order and will not consider a new reexamination
20 application until the entire backlog is cleared. That is not the case. USPTO regulations
21 specifically state that reexaminations involved in litigation are taken up before other
22 reexaminations, reissues, or regular applications not involved in litigation: "Any cases involved
23 in litigation, whether they are reexamination proceedings or reissue applications, will have
24 priority over all other cases." MPEP § 2261. Since the USPTO's data shows that only 26% of

1 reexaminations are in litigation, this policy has a significant impact on the pendency of
 2 reexaminations involved in litigation, such as those currently at issue.

3 A better way of determining the backlog as it impacts the reexaminations at issue in this
 4 case is to consider only those reexaminations related to litigation, as those reexaminations have
 5 priority over other cases. Using Plaintiff's own data, as shown in Exhibit B to Declaration of
 6 Melody A. Kramer, Docket No. 21-2, the number of litigation-related reexaminations and the
 7 number of reexamination certificates issued since 1989 is as follows:

Year	Related to Litigation	Certificates Issued	Year	Related to Litigation	Certificates Issued
1989	37	206	1999	62	243
1990	27	224	2000	80	276
1991	47	200	2001	80	287
1992	47	243	2002	52	200
1993	75	293	2003	109	193
1994	77	309	2004	138	138
1995	100	281	2005	176	223
1996	89	298	2006	229	329
1997	65	334	2007	369	367
1998	66	317			

8 As can be seen in the foregoing chart, every year between 1989 and 2006 there were more
 9 certificates issued than there were reexamination requests filed that related to litigation. Since
 10 reexaminations involved in litigation have priority, it may be assumed that they were taken up
 11 first and there was therefore no backlog of reexaminations related to litigation. The only year in
 12 which there were more filings than certificates was 2007. Thus, using Plaintiff's methodology of
 13 determining backlog but taking into consideration the fact that reexaminations related to
 14 litigation have priority, the backlog at the end of 2007 should have been only two (2)
 15 reexaminations. This is drastically different than Plaintiff's assertion that there was a backlog of
 16 1,658 reexaminations.

17 A further flaw in Plaintiff's methodology is the assumption that reexamination
 18 certificates will continue to be issued at the same rate at which they have been issued in the past.

1 Plaintiff's own cited statistics indicate that the number of reexamination certificates issued since
2 2003 is as follows: 193 in 2003; 138 in 2004; 223 in 2005; 329 in 2006; and 367 in 2007. *See*
3 Exhibit A to Declaration of Melody A. Kramer, Docket No. 21-2. In other words, the number of
4 reexamination certificates issued per year has increased 190% over the past five years. There is
5 no basis for an assumption that such growth will not continue this year and in the future. There
6 is even less basis for an assumption that such growth will reverse and the rate will drop back to
7 the five year average of 250. Thus, even if there were a backlog effecting litigation-related
8 reexaminations, such a backlog would likely be cleared much sooner than Plaintiff's estimate of
9 5 years.

10 The fact is, there is absolutely no way of knowing how long the reexaminations will take.
11 Common sense dictates that the pendency of a reexamination has much more to do with the
12 length and complexity of the patent and prior art being considered and with the number of
13 communications between the USPTO and the patent owner than it does with any supposed
14 backlog. The best anyone can do is guess about how long a reexamination will take, based on
15 the information we have before us. Unfortunately, neither Defendants nor Plaintiff has enough
16 information to make a reasonable guess as to these particular reexaminations. The entity with
17 the most information is the USPTO, whose most recent report states that the average overall
18 reexamination pendency is 24.0 months and the median pendency is 18.6 months. In the absence
19 of more complete raw data allowing us to make better calculations ourselves, the best we can do
20 is rely on the USPTO to correctly interpret its own data, and assume that the 18.6 to 24.0 month
21 pendency is at least close to what we can expect in the current reexaminations. Plaintiff's
22 assumptions, guesses, and flawed methodology do not change this fact. Therefore, Plaintiff's
23 argument that a stay is inappropriate because the reexaminations are likely to extend five years
24 or more is not well taken.

Plaintiff's Arguments Based on a Five-Year Reexamination Pendency are Inapplicable Given the Forgoing Demonstration

An alleged five-year pendency is the basis for several of Plaintiff's arguments in the position, namely the arguments that five-year reexaminations undermine legislative policy, undermine the purpose of the Local Patent Rules, and render older case law on the subject of pending reexamination inapplicable. The fact that the five-year pendency theory is correct, as demonstrated above, renders these arguments moot. Furthermore, even if there is some support for Plaintiff's theory, Plaintiff's arguments are not persuasive.

9 Plaintiff first argues that a five-year reexamination undermines congressional intent for
10 use of the reexamination process. While this may be true, it is of no consequence in this case, as
11 neither Plaintiff, Defendants, nor the Court has any influence on the duration of the pending
12 reexaminations. Likewise, Plaintiff's lamentations over the misuse of the reexamination process
13 by defendants in general is irrelevant in this case, as the pending reexaminations were initiated
14 by third-parties and were already pending long before Plaintiff commenced the instant action
15 against Defendants.

16 Plaintiff also argues that lengthy reexamination proceedings undermine the intent of the
17 Local Patent Rules. Plaintiff argues that the purpose of the Local Patent Rules is “providing a
18 predictable and uniform treatment for IP litigants and streamline the process by which a patent
19 case is litigated, shortening the time to trial or settlement and thereby reducing costs for all
20 parties involved.” However, while a stay pending a lengthy reexamination proceeding does
21 delay trial, it serves the rest of the purposes of the Local Patent Rules much more effectively than
22 blindly proceeding with expensive litigation that may or may not need to be repeated or may
23 even be unnecessary, depending on the outcome of the reexamination. Issuing a stay does not
24 disrupt predictable and uniform treatment for IP litigants. Likewise, staying litigation pending

1 the outcome of reexamination is much more streamlined than simultaneously going forward with
2 parallel proceedings before the court and the USPTO, and therefore a stay serves the purpose of
3 streamlining the process by which a patent case is litigated. Finally, a stay does not increase the
4 cost of litigation in the least, but may save significant expense in ultimately unnecessary
5 discovery, motion practice, and possibly even trial. Therefore, contrary to Plaintiff's assertions,
6 staying the present action pending the reexaminations does not undermine the intent of the Local
7 Patent Rules, but rather supports and furthers their intent and purpose.

8 Finally, Plaintiff argues that case law supporting liberal grants of litigation stays pending
9 the completion of reexamination proceedings are inapposite. However, the cases cited by
10 Plaintiff do not constitute binding precedent in this Court and, moreover, are readily
11 distinguishable from the case at bar. In both *NTP, Inc. v. Research in Motion, Ltd.*, 397
12 F.Supp.2d 785 (E.D.Va. 2005) and *MercExchange, LLC v. eBay, Inc.*, 500 F.Supp.2d 556, 83
13 USPQ2d 1688 (E.D.Va. 2007), the case was in a drastically different stage than the present case,
14 having been to trial, up on appeal, and subsequently remanded back for reconsideration of select
15 issues. In *Blackboard, Inc. v. Desire2Learn, Inc.*, Civil Action No 9:06-CV-155 (E.D. Texas,
16 2008), the court denied the defendant's motion to stay by oral order, and therefore we have no
17 way of knowing the facts particular to that case justifying the denial. Therefore, none of these
18 cases provide guidance in the present case.

19 As discussed in the Motion, it is within this Court's discretion whether to grant a stay in
20 the present action. The Court may consider the reasoning of the courts cited by Plaintiff, but is
21 under no obligation to follow their lead. Rather, the Court should consider all of the facts and
22 circumstances of this particular case, as well as the parameters set forth in the Motion as the
23 generally accepted standard for determining whether to grant a stay, namely (1) whether a stay
24 would unduly prejudice the nonmoving party, (2) whether a stay will simplify the issues, and (3)

1 whether discovery is complete and a trial date has been set. As demonstrated in the Motion, all
 2 of these factors weigh in favor of granting a stay, in the interest of judicial economy. The fact
 3 that a handful of courts have found that a stay is inappropriate in their particular and very
 4 different circumstances does not change the fact that the interests of judicial economy weigh in
 5 favor of granting a stay in the present case pending resolution of the pending reexaminations.

6 **Plaintiff Would Not Be Unduly Prejudiced By a Stay**

7 Plaintiff's final argument is that Plaintiff would be prejudiced by a stay. However,
 8 Plaintiff has failed to demonstrate the likelihood of such prejudice or that such prejudice would
 9 be undue. Several courts have found that a certain amount of prejudice is inherent in every stay,
 10 and such prejudice is not considered "undue." *See Sorensen v. Digital Networks North America*
 11 *Inc.*, 2008 WL 152179 (N.D.Cal.) (holding that "[t]he delay inherent to the reexamination
 12 process does not constitute, by itself, undue prejudice"); *SKF Condition Monitoring, Inc. v. SAT*
 13 *Corp.*, 2008 WL 706851 (S.D.Cal.) (holding that "the delay inherent to the reexamination
 14 process does not constitute, by itself, undue prejudice"); *01 Communique Laboratory, Inc. v.*
 15 *Citrix Systems, Inc.*, 2008 WL 696888 (N.D. Ohio) (holding that prejudice resulting from a stay
 16 during reexamination does not necessarily rise "to the level of undue prejudice necessary to
 17 outweigh other factors in favor of a stay," and declining to speculate on possible future discovery
 18 issues); *Aerotek, Ltd. v. IDT Corp.*, 2003 WL 23100263 (SDNY) (holding that prejudice in the
 19 form of an inability to move forward and confirm the value of a patent "is an inevitable result of
 20 any stay [and] is not unduly prejudicial"). As noted by this Court in *Sorensen v. Black & Decker*
 21 *Corporation, et al.*, Case No. 06cv1572, "[p]rotracted delay is always a risk inherent in granting
 22 a stay, yet courts continue to stay actions pending reexamination. The general prejudice of
 23 having to wait for resolution is not a persuasive reason to deny the motion for stay." 2007 WL
 24 2696590, *4.

1 Plaintiff argues that a stay would prohibit Plaintiff from identifying and serving all proper
2 defendants. However, Plaintiff presents no reasons to suspect that there may be additional
3 defendants that cannot be identified without discovery. Therefore, the only prejudice with
4 regards to identifying defendants that Plaintiff will suffer as a result of a stay is the same
5 prejudice suffered by all plaintiffs in stayed cases, namely the risk that there is some unknown
6 party out there, the discovery of whom is delayed by the stay. Such prejudice is inherent in
7 every stay and, absent special circumstances indicating otherwise, does not constitute undue
8 prejudice.

9 Likewise, Plaintiff argues that a stay would prejudice Plaintiff through the loss of
10 evidence. However, Plaintiff's argument is faulty. Plaintiff admits in the Opposition that courts
11 have construed Rule 26 to imply a duty to preserve all evidence that may be relevant in a case,
12 and that courts are reluctant to grant motions to preserve evidence because the duty of
13 preservation exists without a court order. Plaintiff then claims a need to conduct preliminary
14 discovery and request a preservation order in order to prevent substantial prejudice as a result of
15 a stay. This position is inconsistent with Plaintiff's foregoing statements that Defendants are
16 under a duty to preserve evidence. Furthermore, similar to the argument regarding additional
17 defendants, Plaintiff does not allege any special circumstances making the loss of evidence any
18 more likely in this case than in any other case subject to a stay. As noted above, prejudice that is
19 inherent in every stay is not considered undue prejudice.

20 Furthermore, even if there were a risk of prejudice to Plaintiff, such prejudice is
21 outweighed by the other factors in favor of a stay. In particular, the slight prejudice Plaintiff
22 may suffer is minuscule in comparison to the prejudice Defendants may suffer should the Motion
23 be denied. As noted by this Court in *Sorensen v. Black & Decker Corporation*,

1 [t]he Federal Circuit has recently confirmed that the PTO would
 2 not be bound in its reexamination by the determinations of this
 3 Court. *In re Trans. Texas Holdings Corp.*, 2006-1599 and 2006-
 4 1600, 2007 U.S.App. LEXIS 19909, at *14-19 (Fed.Cir. Aug. 22,
 5 2007). Because of this, the Court finds that not only is Plaintiff
 6 unlikely to be prejudiced in these proceedings by a stay pending
 7 the PTO reexaminations, but Defendants would potentially be
 8 prejudiced by failing to enter a stay. One court has explained this
 9 possibility accordingly:

10 Not only could the Court and the PTO reach conflicting
 11 determinations, but one possible scenario could result in
 12 irreparable harm to [Defendant]: if this Court finds that the [patent]
 13 is not invalid and that [Defendant] has infringed it, and orders
 14 [Defendant] to pay damages to [Plaintiff] for such infringement,
 15 then [Defendant] would have no ability to recover those damages if
 16 at a later date the PTO determined that the [] patent is invalid.

17
 18 *Bausch & Lomb, Inc. v. Alcon Lab., Inc.*, 914 F.Supp. 951, 952
 19 (W.D.N.Y. 1996). The Court finds such a possibility to be, at a
 20 minimum, a highly undesirable outcome.

21
 22 2007 WL 2696590, *5. Thus, not only will Plaintiff not be unduly prejudiced by a stay, but a
 23 failure to stay the present action may severely prejudice Defendants. Therefore, a stay is
 24 warranted in the interest of judicial economy.

26 **CONCLUSION**

27 Plaintiff's assertion that the pending reexaminations are likely to last five years is
 28 unfounded. Thus, all of Plaintiff's arguments based on the long duration of reexaminations is
 29 likewise unfounded. Furthermore, Plaintiff has failed to demonstrate that Plaintiff will suffer
 30 undue prejudice as a result of a stay. Therefore, because a stay would not unduly prejudice the
 31 nonmoving party, a stay will simplify the issues, and the case is in its earliest stages, a stay of the
 32 present action pending resolution of the ongoing reexaminations is appropriate and warranted.

33 For the reasons explained above and in Defendants' Motion, Defendants respectfully
 34 request that the Court stay all proceedings in the present action pending the reexamination of
 35 U.S. Patent Number 4,935,184 by the United States Patent and Trademark Office.

1 Date: April 18, 2008

2 Respectfully submitted,

3 */s/Cassandra L. Wilkinson*

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27 Counsel for Defendants Global Machinery
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30
31 **CERTIFICATE OF SERVICE**

32
33 The undersigned hereby certifies that on April 18, 2008, the foregoing document was
34 electronically transmitted to the Clerk of the Court using the ECF System for filing and
35 transmittal of a Notice of Electronic Filing to the following ECF registrants:

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